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MEMORANDUM

On January 8th, the Secretary of State handed to Mr. Eden a Memorandum arising out of a discussion between the President and the Prime Minister on board the Williamsburg, on the subject of trade with China in British ships. A joint fact-finding Group consisting of United States and United Kingdom representatives has now been authorized to investigate and, if possible, reach agreed conclusions on the volume and relative importance of goods reaching China by sea and by land. This Group will report its conclusions to the United States and United Kingdom Governments, but in the meantime, the following observations on Mr. Acheson's Memorandum may be made.

2. While fully determined to prevent the supply to China of goods of strategic value, His Majesty's Government have always, for reasons of which the Department of State is aware, been opposed to the imposition of an embargo on all trade with China. In their view it is not the volume of sea-borne trade which is important but its content. In view of the export controls exercised by members of the United Nations, particularly by the NATO countries, the proportion of strategic goods reaching China by sea must be very small.

3. There has not yet been time to check the figures given in the Secretary of State's Memorandum for ships of British and other non-Communist registers trading with China, but there is no reason to doubt them. They include some which, after arriving at Chinese ports in ballast, collect cargoes of e.g. rice for India, which are important to the free world; others sail from Japanese ports.

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4. As regards goods of non-British origin carried from non-British ports, the available evidence shows that the amount of goods (if any) carried to China in British ships must be negligible. His Majesty's Government would support action by the United Nations to prohibit the carriage of strategic goods in the ships of member states, but are not willing to take unilateral action to this effect.

5. In his Memorandum the Secretary of State says that Communist charters of British registered shipping have released Polish Flag vessels for the China trade. This appears to imply that the United Kingdom should altogether prohibit the chartering of British vessels to Communist countries even for "normal trade". Such action would be tantamount to economic warfare against the Soviet bloc, which the United Kingdom is not willing to contemplate. The total number of Polish-controlled vessels engaged in the carriage of goods to China is only about fifteen.

6. Of the British ships quoted as being engaged in China trade during September, October, and November, 1951, (a total of 97 voyages is quoted), only eleven were ocean-going and of these, ten sailed to China in ballast.

7. As regards the sale of ships to Communist countries, the Paris East-West Trade Group agreed in November, 1950, that member countries would not export to the Soviet bloc ships over either 7,000 gross tons or 12 knots speed capacity, without prior consultation within the Group. A British proposal to embargo such exports altogether was rejected. Since then, (except for one 13 1/2-knot, 3,000-ton ship under the Anglo-Polish Trade Agreement) no British dry-cargo ship over either limit has been sold to the Soviet bloc. As regards sale to non-Communist buyers with subsequent resale to the Soviet bloc, all transfers of British ships to foreign owners are controlled by statute and sales to possible intermediaries are closely watched, in particular sales to registers of convenience. The only case known of resale of a ship over 7,000 tons or 12 knots capacity, was the sale in October, 1950, of the 7,100 ton 10-knot

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in November, 1951, by a sale through another Panamanian Company to Poland. One smaller ship, the "London Statesman" (5,100 tons and 11 knots) had a similar history. The United Kingdom has, of course, no power to control the sale of ships other than those wholly owned by British subjects, i.e. British ships.

8. The United Kingdom estimate of Chinese imports by sea is in the region of 200,000 to 300,000 tons per month, rather than the 600,000 tons per month mentioned in the Secretary of State's Memorandum. Nor does the United Kingdom believe that the cessation of imports, even if complete, from the free world would affect the course of Chinese military operations on the present scale in the short term.

BRITISH EMBASSY,

Washington, D. C.

14th January 1952.

CONFIDENTIAL

MEMORANDUM FOR MR. EDEN

At the President's direction I submit this memorandum following the discussion between the President and the Prime Minister, with ourselves present, held on Saturday night, January 5th, aboard the Williamsburg, on the subject of China trade.

The President expressed himself as seriously concerned over indications that the United Kingdom was continuing to give substantial assistance to Communist China through trade in strategic and other materials from British sources or carried on British flag vessels.

The information furnished the President by the Chief of Naval Operations, upon which he based his remarks, is as follows:

Between 1 July 1950 and 30 November 1951 a total of at least 167 British registered and British owned merchant ships have engaged in trade with Communist China. The total gross tonnage of these ships is over one million. British controlled shipping accounted for over half of the non-Communist registered shipping tonnage in the China trade in this period.

There are at least 163 ships registered in other non-Communist countries which were, between 1 July 1950 and 30 November 1951, engaged in trade with Communist China. The total gross tonnage of these ships is slightly less than one million.

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Over the period stated above, the monthly average of voyages of British ships engaged in the China trade has been forty-eight. Since mid-summer there has been a reduction in the number of monthly voyages of these ships. In September there were thirty-six, in October thirty-one and in November thirty. This decrease in British owned tonnage is partially offset by an increase in Communist flag traffic to China, especially Polish. Communist charters of British registered shipping to handle normal trade to India and South America has released Polish flag vessels for the China trade. In addition continuing Communist ship purchases are being employed almost exclusively in China trade.

We estimate that Communist China imported a minimum of 600,000 short tons per month by ship during 1951. This compares with an estimated monthly eastbound capacity for the Trans-Siberian Railroad of 670,000 short tons.

Although the voyages of British registered and owned ships in the China trade have decreased in the last few months, British citizens have sold to the Soviet bloc at least twelve ships through intermediaries. Negotiations are believed to be currently underway for the sale of at least four others.

Regardless of whether the cargo which is being delivered to China by sea comprises material which directly contributes to the war effort, it is clear that the interdiction of this sea-borne traffic would have a serious and probably critical effect on the Chinese economy which would, of course, directly affect China's war making potential. In the absence of a sea-borne traffic China could not import more than a very small part of the equivalent tonnage by overland routes. The major route is, of course, the Trans-Siberian Railroad which is probably now already operating to near capacity.

I would appreciate it if the appropriate authorities of your Government could look into the situation and take such measures as appear suitable in the circumstances.

January 8, 1952.

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